Fraud Awareness Training

(Contingency)

Oct 2008

Public Corruption - Economic Crime

- Breach of public trust by elected or appointed U.S. Government Officials who ask, demand, solicit, seek, accept, receive or agree to receive anything of value in return for preferred treatment.

Economic Crime

- An actual or potential loss to the government due to the subversion of a system from within by persons acting with criminal intent. **FRAUD!**

Why Investigate Economic Crimes?

- The first battle of our next war will be won by the military that is properly and completely outfitted with quality equipment.
  - *WE must be that force.*
- Monetary recoupment gained as a result of a successful Economic Crime Investigation can result in more dollars available for equipment, facilities, and manpower.

Fraud Facts

- Fraud: Misrepresentation of a material fact with the intent to deceive
  - Can be a single act or combination of circumstances
  - Can be the suppression of truth or the suggestion of what is false
  - May occur by direct falsehood, by innuendo, by speech, by silence, by word of mouth or by look or gesture

- Most important element in fight against procurement fraud:
  - Recognition of conditions/events that allow fraud to go undetected

- Gov't personnel performing proper checks, and asking the right questions will greatly help prevent fraud
  - Puts contractors on notice that gov't personnel (working their contracts day-to-day are "fraud detection savvy"

Fraud Case Results

- **DoD Procurement Fraud Case Results**

  1 Oct 2006 through 30 Sep 2007

  - Indictments: 206
  - Convictions: 154
  - Suspensions: 52
  - Debarments: 160
  - Monetary Recoveries: $887.6 Million

Consequences of Procurement Fraud

- National Security
  - Failure of a part or system creates advantages for adversaries, both on the battlefield and at home
  - Assets devoted to pursuing and prosecuting fraud cannot be used for other missions
- End Users
  - Safety issues
  - Adverse mission impact due to unreliable systems
- Contractors and their Employees
  - Safety issues
  - Financial impact due to contracts lost to irresponsible contractors and unfair competition

Who Commits Fraud?

- ***People do!***
- **They could be:**
  - **Employees or Management**
  - **Contractor Personnel or Government Employees**
  - **Military or Civilian**
- **Companies can be held responsible for actions of their employees and managers**

Fraud & Corruption Are Real

Develop America's Airmen Today ... for Tomorro

Major Procurement Frauds (as of 9/24/07)

Far More Than Just Contracting Officers

Service	Percentage of Contracting Personnel in Iraq/Kuwait	Open Fraud Investigations
Air Force	70%	1
Army	28%	77
Navy	2 %	0
Total	100%	78

Army Employees Involved	
Contracting Officers	18
Contracting Officer Representatives	21
Other	57
Total	96

Army Employees Involved		Active	Reserve	National Guard	Retired
Army Officers	50	27	12	8	3
Army Enlisted	33	19	8	6	0
Dept of Army Civilians	13	83			
Total	96				

Source: Data provided September 21, 2007, to the Commission by U.S. Army Criminal Investigation Command, Major Procurement Fraud Unit, and subsequently updated on September 24, 2007

Top Offenses

- Bribery
- Making or Using a False Statement
- Falsely Making or Altering a Document
- Making or Presenting a False Claim
- Conspiracy to Defraud
- Collusive Bidding
- Accepting Illegal Gratuities
- Disclosure of Confidential Information
- Insufficient Delivery of Contracted Items
- Failure to Meet Specifications

Bribery

- Contractor offers money for preferential treatment during award process.
- Contracting official accepts money, gifts or favors from a bidder in return for awarding a Government contract.
- An employee in the Contracting office, who has no actual authority to award contracts, promises to ensure award a contract to a bidder if the bidder pays the employee money.

Falsely Making, Altering, or Forging a Public Record

- Contractor falsified time cards of employees by inflating the number of hours allegedly worked, thereby increasing costs on a cost-reimbursement contract.

- An individual manufactures proposals for bids using the names of several Contractors without the Contractors knowledge or approval. The proposals are then submitted in an effort to obtain various contracts.

- COR falsifies DD250 for receipt of goods or services.

False Claims

- Contractor submits a claim for a progress payment indicating a specified amount of work had been completed on a project, when in fact the project is behind schedule and the work has not been completed.

- Individual signs contract and finance documents claiming to be a representative of a contractor, thus allowing the individual to receive unauthorized payments on numerous contracts.

Conspiracy

- Two or more persons agree to commit a criminal act such as false claims, false statement, etc.
- One or more of the persons make an overt act.
- Overt act could have been as simple as drafting up a fake proposal even if they did not submit the document.

Conspiracy To Defraud

- COR submits false receiving documents on behalf of a Contractor indicating a specific amount of materials on a contract had been received when in fact the materials were never delivered.

- Individual contacts a Contractor and requests they prepare several different proposals for one individual contract. The individual specifically asks the Contractor to prepare one in the “individuals name”, one in the “contractors name”, and to “invent” another one. The Contractor then prepares the proposals as requested.

- Government representative instructs a contractor to submit invoices for materials which have not been received on a contract. The Contractor then submits the invoices and

Collusive Bidding

- Group of companies with the capability of providing the same goods or services conspire to exchange bid information on contract solicitations
  - Then take turns at submitting the low bid

Accepting Illegal Gratuities

- COR accepts manicures, spa treatments, and other personal benefits from the contractor.
- Contractor asks only for smooth processing of their invoices.
- Even if the COR is not favorably influenced by this “generous” act on the part of the contractor, the COR has accepted an illegal gratuity.
- FAR 3.101-2 – No Government employee may solicit or accept any gratuity, gift

Disclosure of Confidential Information

- Need to keep the playing field level.
- Contracting office official illegally discloses information regarding an upcoming RFP providing an unfair advantage.
- Contracting official discloses one offeror's information to another offeror.

Disclosure of Confidential Information

- In an effort to obtain concessions from the candidates, the Contract Officer tells candidate ‘A’: “Your price is too high, candidate ‘B’ has offered to do the job for $50,000 less than you have.”
- Contract Officer later tells candidate ‘B’ that ‘B’s’ proposal is well-liked, but could be improved by incorporating a process contained in candidate ‘C’s’ proposal.
- Contracting Officer then explains this process to candidate ‘B’.
- Both these disclosures constitute unauthorized disclosure of confidential information.

Insufficient Delivery of Contracted Items

- Contractor under two separate contracts to deliver 10,000 ballistic vests and 540 ballistic vests, only delivers 10,000 vests.

- Contractor pulls 540 vests from the first shipment and submits them on the second contract.

- Contractor ultimately receives payment for both contracts and the Government is short 540 vests.

Failure to Meet Specifications

- Contractor increases profits by providing goods or services that do not meet contract specifications
- Such action is often difficult to detect because materials omitted from end products are not readily identifiable

- *Example -- A contractor uses one coat of paint instead of two; uses watered loads of concrete: installs inferior memory chips in computers; or uses inferior automobile replacement parts*

Fraud Indicators

Indicators of Bribery, Kickbacks and Gratuities

- Contractor offers monetary payment or other compensation in exchange for favorable consideration in contract award or oversight
  - *REALLY* obvious red flag
- Frequent and apparently unnecessary visits by contractor to purchasers
- Contractor entertainment of purchasers
- Shoptalk/Water Cooler discussions of abnormally close Contractor/Purchaser relationships

Indicators of Bribery, Kickbacks and Gratuities

- Frequent use of Contractor despite quality, cost or performance problems
- Excessive use of a single contractor in a competitive field
- Unexplained or unnecessary disqualification of competitors
- Apparent excessive pricing for items or services supplied
- Apparent favoritism of contractor by purchaser

Billing Fraud Indicators

- Contractor bills costs that are not part of or required for contract performance
- Contractor makes little or no physical progress on the contract even though significant costs have been billed
- History of frequent invoice/voucher errors, poor documentation, & claiming unallowable costs
- Different typeface on an invoice

Billing Fraud Indicators

- Nonpayment of subcontractors and suppliers
- High turnover of contractor personnel preparing payment requests
- Invoices for services that could/should not have been performed as claimed

Billing Fraud Indicators

- Change in contractor’s name or payee
- Payments to assignee terminated w/o notice
- One person authorized to both order and receive goods and services

Pricing Fraud Indicators

- Distributors with no expertise or quality controls
- Significantly lower prices than competition, with no explanation
- Frequent complaints by users of supplies of services
- Inadequate traceability of parts
- Shifting of costs between contracts, categories and/or commercial work

Quality Control Fraud Indicators

- Altered Test Reports/Certifications
  - Minor discrepancies in typeface, “whited out” sections, handwritten portions of typed documents, other alterations

- “Pre-Signed” Certification or Receipt Forms
  - Indication that actual verification was not performed as these should not be signed until actual verification of facts have taken place

Quality Control Fraud Indicators

- Limited Government access to production and storage facilities
- Unwillingness to mark or seal in the presence of a Government Representative
- Major work schedule changes without notice
- Contractor efforts to hide records
- Poor reproduction of certifications, illegible or incomplete documentation
- Use of lesser skilled labor than originally anticipated
- Substitution of foreign parts for domestic items

Product Substitution Fraud

- Use of Inferior Quality Raw Materials
- Substitution of Products or Services
  - Counterfeit/non-qualified parts
  - Sale of surplus or used parts as new
  - Foreign made v. domestic products
  - Remarking/Repackaging
- False Certificates of Conformance
  - Provided by Contractor to affirmatively state that the product meets contract requirements

Example of subtle differences between authentic and fake packaging

Collusive Bidding Fraud

- Identical bids are received.
- Number of bids received are much higher than previous contracts of the same type or previous bids by the same firms for similar contracts.
- Fewer bids received than normally expected
- There is an inexplicably large gap between the winning bid and all other bids.
- Successful bidder subcontracts work to companies that submitted higher bids on the same project.
- Competing contractors regularly socialize, or contractors and Government procurement personnel socialize.

Your Actions

How Can You Help

YOU

are the first line of defense

What Should You Do?

- Understand Contract Requirements
- *Be alert for indications of fraud*
  - Recognize undisclosed non-conformances, defective or substituted items
  - Recognize irregularities
- Ask Questions
- Follow-up on Notices of Potentially Defective Products

Basic Rules for Fraud Awareness

- Carefully identify the sensitive areas that could be subjected to fraud, waste, and abuse
- Maintain effective administrative and judicial action – Deterrence
- No activity is immune from fraud, waste, and abuse

Basic Rules for Fraud Awareness

- Insist on adherence to Standard Operating Procedures and controls
  - If you must deviate, thoroughly document it
- Watch for deviations from normal activity
- Evaluate whole picture, not just “today”

How Can You Help

***REPORT* suspicions of Procurement Fraud promptly!**

DO NOT *WAIT* FOR *PROOF*

Contact Your Procurement Fraud Advisor, Law Enforcement, Legal Office or contact a Fraud Hotline

How Fraud Gets Reported

- Reported by:
  - Contracting Personnel
  - COR/QAEs
  - Contractor Employee
  - Other DoD employees

- Reports are received by:
  - Army CID, AFSOI, or other Law Enforcement Agencies
  - Inspector General
  - Staff Judge Advocate
  - Installation Procurement Fraud Advisor
  - DoD Fraud, Waste & Abuse HOTLINE

Who To Call

- To speak to a local agent
  - DSN xxx-xxxx; SIPR xxx-xxxx
  - Enter email address
  - Enter email address

You may remain anonymous

Who To Call

Or…

- **DoD Fraud, Waste & Abuse HOTLINE:**
- **Phone: 1-800-424-9098**
  1-877-363-3348 (Iraq and Afghanistan)
- **Email: hotline@dodig.mil**
- **Web Address: www.dodig.mil/HOTLINE**

Report: Fraud, Waste, and Abuse
Defense Hotline
1-877-363-3348
Protect the Total Force
Military • Contractors • Civilians
Contact the Department of Defense Inspector General Hotline

Air Education and Training Command

"The First Command"

Recent Investigative Results

- **Ronald Wiseman –** In October 2006, Wiseman, a former DRMS area manager, was sentenced to 18 months confinement for violations of the Arms Export Control Act relative to his involvement in the illegal sale of numerous HMMWVs to foreign nationals from Camp Doha, Kuwait.
- **Kellogg, Brown, & Root –** In December 2006, Stephen Seamans, former KBR procurement manager, was sentenced to 12 months plus one day incarceration, three years supervised release and ordered to pay $380,130 in restitution. Seamans previously pled guilty to wire fraud and conspiracy to launder money related to two subcontracts valued at $21.8 million to KBR subcontractor, Mohammad Shabbir Khan, former Director of Operations, Tamimi Global Company.
- **John Rivard** – In October 2007, Rivard, a former Army Reservist, was sentenced to 10 years in prison for conspiracy, bribery, and money laundering in awarding government contracts in Iraq.
- **Jasmine International Trading** – barred in 2006 from getting new contracts. Two Army soldiers at Camp Arifjan Finance office court-martialed for taking $7,000 from Jasmine to process payments more quickly.